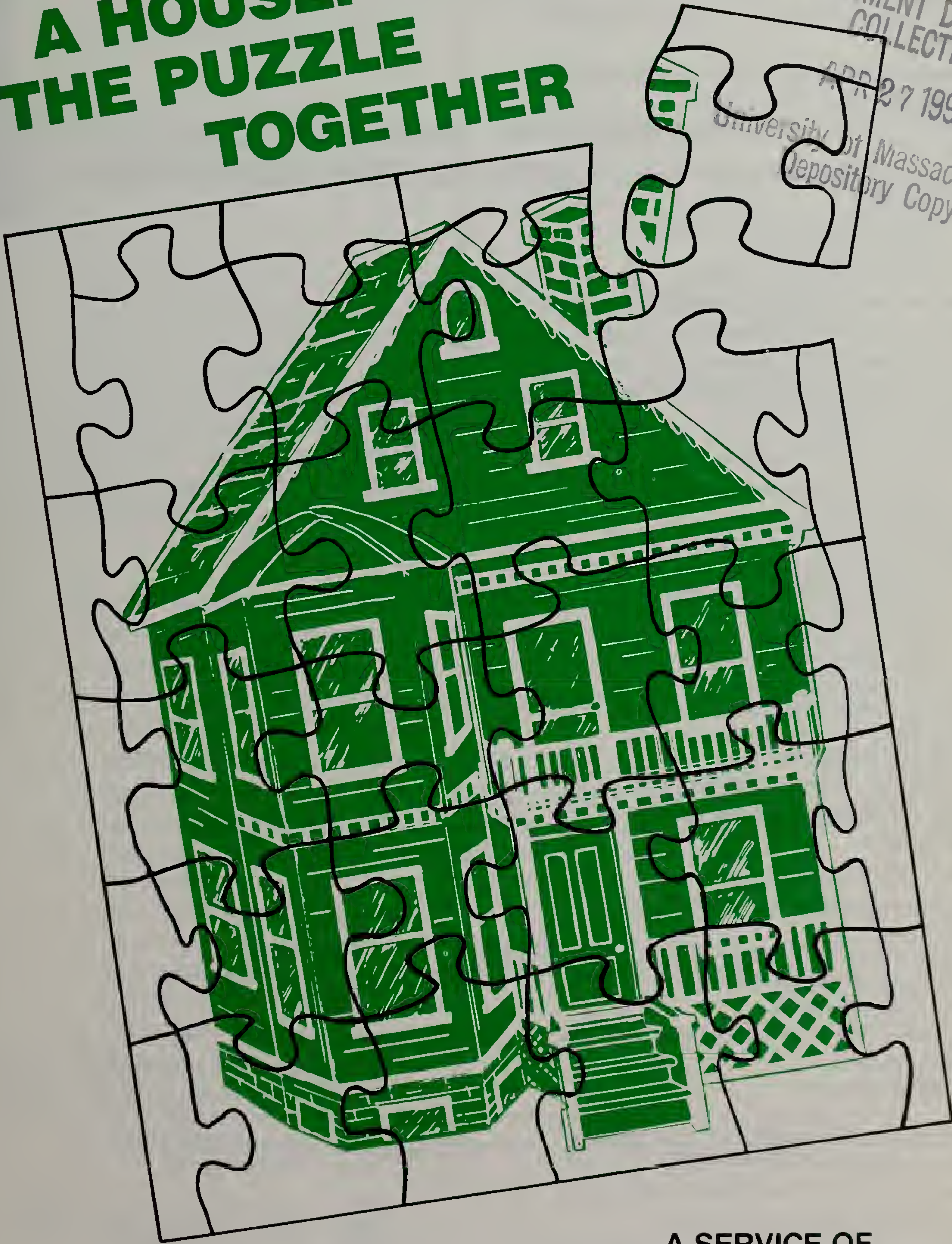
# HOW TO BUY A HOUSE: PUTTING THE PUZZLE TOGETHER





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To further your understanding of the homebuying process, we've attached the following:

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EQUAL HOUSING OPPORTUNITY

MHFA—Supporting the Massachusetts Housing Partnership

Buying a home is probably the most important financial move you'll ever make. Since the homebuying process is often a puzzle to first-time purchasers, the Massachusetts Housing Finance Agency (MHFA) has prepared this brochure to guide you through the major steps involved in buying a house with MHFA financing.

# GETTING TO KNOW THE MHFA MORTGAGE PROGRAMS

Before we take you through the steps in the homebuying process, you may want to review the accompanying brochure describing MHFA's mortgage programs, eligibility guidelines and application procedures. MHFA mortgages are offered through four separate programs known as General Lending (which usually includes a special set-aside period for qualified priority borrowers); Neighborhood Rehabilitation; New Construction; and the Homeownership Opportunity Program (HOP).

As you become more familiar with MHFA's Homeownership Programs, consider the following benefits they offer:

## a. Advantages To Getting A Mortgage Through MHFA

- MHFA's mortgages benefit low- and moderate-income people, primarily first-time homebuyers.
- MHFA's interest rates are generally one to two percent less than rates offered by conventional lenders.
- MHFA's interest rates are fixed for long terms.
- MHFA requires downpayments of only five percent. Gifts from relatives will be accepted as part of a downpayment as long as you put down at least two and a half percent of the downpayment using your own cash (for example, there is a 2 and a half percent borrower cash requirement on a downpayment of 5 percent).
- MHFA has reasonable underwriting requirements. The housing expense to income ratio is 30% and the total monthly payment to income ratio is 36% (for further details see page 2).
- MHFA mortgages are available throughout the Commonwealth of Massachusetts.

Once you've reviewed MHFA's Homeownership Programs you should try to answer a basic question: can you afford to buy and maintain a house?

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Please note that this brochure is designed to give you a general understanding of how to buy a home with a mortgage from MHFA. This publication is not designed to provide a detailed explanation of all the legal rights and obligations that go with buying a home. For complete details, contact a participating lender (see enclosed brochure/insert).

## DETERMINING WHETHER YOU CAN AFFORD TO BUY A HOUSE

To determine whether you can afford to buy a home under MHFA guidelines, you should calculate your housing expense to income ratio and your total monthly payment to income ratio.

**Housing expense to income ratio:** your total monthly housing expense should not exceed 30 percent of your stable gross monthly income (regular monthly income before deductions for federal and state taxes and social security). Your monthly housing expense includes: mortgage principal, interest, real estate taxes, mortgage insurance, hazard insurance and, if applicable, condominium maintenance fees.

**Total monthly payment to income ratio:** your monthly housing expense plus payments on all other installment debts having a remaining term of more than 12 months, should not exceed 36 percent of your stable gross monthly income. Examples of installment debt include: car payments, credit card payments, bank loans, student loans, finance company loans, and so forth.

Rental income from a two-four family house you're purchasing will be considered in your ability to meet monthly mortgage payments; rental income will not be considered in determining whether you meet the income limits for a mortgage loan.

### a. Calculating Ratios

To calculate your gross **housing expense to income** ratio, divide your total monthly housing expense by your total monthly gross income. You can use the chart below.

**HOUSING EXPENSE TO INCOME RATIO**

| | | |
|---|---|---|
| *Monthly Stable Income (A)* | | |
| your stable gross monthly income | | ________ |
| your stable monthly overtime/bonuses | | ________ |
| stable secondary monthly income | | ________ |
| stable monthly dividend income | | ________ |
| | Total (A) | ________ |
| *Monthly Housing Expense (B)* | | |
| mortgage payments (including principal and interest) | | ________ |
| monthly fire and hazard insurance* | | ________ |
| monthly real estate taxes* | | ________ |
| monthly primary mortgage insurance* | | ________ |
| monthly homeowner's association fee** (portion of condominium fee applicable to common areas) | | ________ |
| | Total (B) | ________ |
| Housing to Income Ratio | B ÷ A = | ________ |

*Housing expense (Total B) divided by monthly income (Total A) equals your housing to income ratio. This ratio should not exceed 30 percent.*

To calculate your **payment to income** ratio, add your total monthly housing expense (from Total B at left) to your other monthly debt payments (include your monthly payments for all debts such as charge accounts, auto loans and educational loans, which have remaining terms of more than 12 payments) and then divide that number by your stable monthly income (Total A at left). Use the chart below to calculate this ratio.

**PAYMENT TO INCOME RATIO**

| | | | |
|---|---|---|---|
| Total (B) | ________ | Credit Card(s) | ________ |
| Car Loan | ________ | Other Loan(s) | ________ |
| Car Loan | ________ | | ________ |
| Education Loan | ________ | Total (C) | ________ |
| Education Loan | ________ | Payment to Income Ratio C ÷ A = | ________ |

*Total monthly payments (Total C) divided by stable monthly income (Total A) equals the payment to income ratio. This ratio should not exceed 36 percent. To qualify for a home mortgage from MHFA, both of the ratios calculated above should not exceed the specified percentages.*

*our real estate broker/lender can help you determine these fees.

**In determining whether you can afford the property, the lender will calculate the condominium fee as part of your housing to income ratio. Depending on the size of the building housng the condo units, and the types of amenities, this fee can range from approximately one to three hundred dollars. The fee pays for common expenses including insurance, maintenance, trash removal and reserves for future major expenditures.

## b. Maximum Monthly Mortgage Payments Based On Income

The following table lists the maximum monthly mortgage payment you are allowed depending on your annual income. The table is based on the credit ratios explained on page 2.

Monthly mortgage payments include principal, interest, taxes, and insurance. Mortgage lenders often refer to these expenses as PITI.

**If your annual income is the amount listed in the first column, your monthly principal, interest, taxes, and insurance (PITI) should not exceed the amount in the second column.**

| 1. Income | 2. PITI | 1. Income | 2. PITI |
|---|---|---|---|
| $15,000 | $375.00 | $24,000 | $600.00 |
| 15,500 | 387.50 | 24,500 | 612.50 |
| 16,000 | 400.00 | 25,000 | 625.00 |
| 16,500 | 412.50 | 25,500 | 637.50 |
| 17,000 | 425.00 | 26,000 | 650.00 |
| 17,500 | 437.50 | 26,500 | 662.50 |
| 18,000 | 450.00 | 27,000 | 675.00 |
| 18,500 | 462.50 | 27,500 | 687.50 |
| 19,000 | 475.00 | 28,000 | 700.00 |
| 19,500 | 487.50 | 28,500 | 712.50 |
| 20,000 | 500.00 | 29,000 | 725.00 |
| 20,500 | 512.50 | 29,500 | 737.50 |
| 21,000 | 525.00 | 30,000 | 750.00 |
| 21,500 | 537.50 | 35,000 | 875.00 |
| 22,000 | 550.00 | 40,000 | 1,000.00 |
| 22,500 | 562.50 | 45,000 | 1,125.00 |
| 23,000 | 575.00 | 50,000 | 1,250.00 |
| 23,500 | 587.50 | | |

## C. Monthly Mortgage Payments

The following table will help you compare the size of monthly mortgage payments with various interest rates. You should be aware that these examples are estimates of the principal and interest and do not include real estate tax and insurance costs.

| **Full Mortgage Amount:** | **$60,000** | **$80,000** | **$100,000** | **$120,000** |
|---|---|---|---|---|
| **11% Interest Rate** 30 yr. fixed | $571.80 | $762.40 | $953.00 | $1143.60 |
| **10% Interest Rate** 30 yr. fixed | $527.00 | $702.00 | $878.00 | $1053.00 |
| **9% Interest Rate** 30 yr. fixed | $483.00 | $644.00 | $805.00 | $966.00 |
| **8% Interest Rate** 30 yr. fixed | $440.00 | $587.00 | $734.00 | $881.00 |
| **7% Interest Rate** 30 yr. fixed | $400.00 | $533.00 | $666.00 | $799.00 |
| **5% Interest Rate** 30 yr. fixed | $322.20 | $429.60 | $537.00 | $644.40 |

## d. Acquisition Cost Limits

The property which you plan to purchase must be within MHFA's home acquisition cost limits. These limits are set in accordance with Federal Law and vary depending on the geographic area in which you're buying and the type of home (1-4 family) you're purchasing. The acquisition cost means the cost of acquiring a residence from the seller as a completed unit. MHFA's current acquisition cost limits are defined in the accompanying insert.

## e. The Costs Of Settling A Loan

Now is also a good time to consider how much it will cost you to settle or close the loan should your application for a mortgage from MHFA be approved.

Closing costs are over and above the downpayment for the house and generally include mortgage application and attorney fees, title insurance, fire and hazard insurance (protects both lender and borrower from losses due to fire and other hazards to the house), mortgage insurance premiums (see below), filing and recording fees, standard bank settlement costs and a bank origination fee.

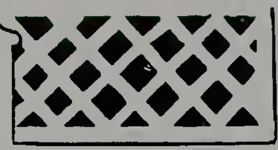
If your downpayment on the house is less than 25% of the acquisition cost your loan must be insured by an approved mortgage insurer. Because of increasingly restrictive private mortgage insurance guidelines, MHFA has created two mortgage insurance alternatives which result in a savings on your initial mortgage insurance premium and do not require you to have two months of payments in principal, interest, taxes and insurance (PITI) in reserve (see also mortgage insurance review section on page 6).

The cost of mortgage insurance at closing will depend on the amount of your downpayment. For example, if you make a downpayment ranging from 5 to 10 percent of the acquisition cost you will pay more for mortgage insurance than you will if you make a downpayment of between 15 and 25 percent.

You must pay your first year's premium at the time of closing and future renewal premiums will be included in your monthly payment.

Together, all of these closing cost expenses will run between four and five percent of the mortgage loan. After determining what you can afford and noting MHFA's requirements, you can begin the search for your house.

## FINDING AN AFFORDABLE PROPERTY



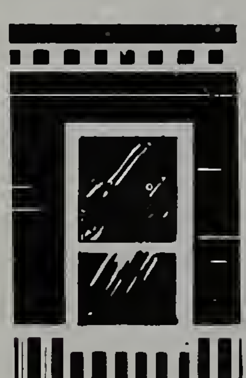
With the high cost of today's houses, it's important to realize that you probably won't find your dream home. Instead, aim for an affordable, comfortable property that suits your needs.

List what's most important in the home you're seeking. Key considerations may include distance from your job, taxes and quality of schools. Further down on the list you can include items you want but don't necessarily need, for example, a fireplace or a fenced-in yard.

### a. Getting Help From A Real Estate Broker

Once you have a clear picture of what you're looking for, you may want to contact a real estate broker. A professional broker knows the market and can make house hunting easier for you. He or she can give you a better understanding of geographic areas and price range. (To help you with your search we've included a house comparison check list on pages 10-11.)

The broker's commission is usually six to seven percent of the sales price but may range up to ten percent. The property seller usually pays the broker's commission.



## MAKING AN OFFER TO THE SELLER

Once you've found a house which meets the MHFA's purchase price limits, you're ready to make an offer to the seller. Your offer should reflect the length of time the property has been on the market, what housing is available in the area and how much you want the house. If your offer is lower than the seller's asking price, the seller may accept or reject your offer or make a counter-offer.

### a. The Purchase And Sale Agreement/ Accepted Offer To Purchase Agreement

After settling on a price, your next step is obtaining either an Accepted Offer to Purchase or an Executed Purchase and Sale Agreement (see page 3 of the accompanying brochure). These contracts should describe the complete understanding of the transaction which will transpire between you and the seller, including the following:

- the price of the house on which you and the seller have agreed;
- a detailed legal description of the property (location, boundaries, etc.);
- a complete listing of what's included in the sale and what is not (appliances, fixtures, furniture, etc.);
- key contingencies: (these are clauses in the contract which state what must happen if you are to go through with the sale). Important contingencies include:
  1. getting MHFA financing
  2. a favorable property inspection report
  3. if applicable, the seller making certain repairs on the property
  4. establishing an estimated date on which the loan will go through

These agreements should give you at least four to eight weeks to find a lender and go through the mortgage approval process. If you seek adequate time at the start, you may avoid requesting repeated extensions later.

**It's important to remember that these contracts are legally binding. The MHFA urges you to obtain professional legal advice prior to signing either of the above documents so that you can fully understand all of the rights and responsibilities that go with signing contracts.**

### b. Making A Deposit

Once you sign one of the documents explained above, you probably will have to place a deposit (sometimes called "earnest money") on the house. This deposit is usually five to ten percent of the purchase price, but the amount depends on the agreement you negotiate with the seller.

If the sale goes through, the deposit generally goes toward the purchase of the property. If you decide to withdraw from the Purchase and Sale or Accepted Offer to Purchase agreements for any reasons not stated in the documents *you can lose your deposit.*

### c. Inspecting Your Prospective Home

Once you sign an agreement and make a deposit, your next step is to have professional structural and pest inspections done on the property. Appearances can be deceiving, so it's crucial to have a professional evaluation of the house for your protection.

Remember that your right to have such a professional evaluation depends on including an appropriate

inspection provision in the Accepted Offer to Purchase or Purchase and Sale documents.

You will find home inspectors listed in the Yellow Pages. Do some comparative shopping by calling several inspectors and asking how much experience they have and what they charge. Licensed contractors, engineers and architects can also perform home inspections.

Once you've hired an inspector, accompany him or her around the property so that you can see what you're buying. Good structural and pest inspectors can uncover problems you didn't notice. Deficiencies might include a leaky roof, a sinking foundation or termite damage.

If the examination uncovers serious defects and you've made the purchase contingent upon the outcome of the inspections, you can determine whether to reopen negotiations or withdraw from the agreement. However, if you decide not to go through with the sale, you must have a good reason.

If you want to go through with the sale and you meet all MHFA eligibility requirements (see attached brochure), you're ready to apply for financing from a lender which has MHFA mortgage funds available.

# SUBMITTING YOUR MORTGAGE LOAN APPLICATION

Before you approach a participating lender, check the accompanying brochure (pages three through five) to find out what the application procedure is for the particular MHFA homeownership program you're interested in. Then, scan the enclosed insert for a lender in the area where you are buying and call to see whether there are MHFA mortgage funds available.

When you go to the Mortgage Department of a participating lender, take your Purchase and Sale or Accepted Offer to Purchase Agreement together with signed copies of your Federal Income Tax Returns for the past three years. We've included a checklist on page 12 of what else you should bring when applying for a mortgage.

From this point on the application and approval procedures are very similar to those for a conventional mortgage.

## a. Questions To Ask Your Loan Officer

Here are some of the key questions you should ask the lender when you apply:

- How much is the application fee? Will the lender refund the fee or any portion of it, and if so, under what conditions? (This fee pays for processing the loan.)
- What other fees and charges are involved? Is it possible to get an estimate?
- Can the lender estimate how long it will take to process the application and settle the loan?
- Which credit bureau will the lender use to check your credit history?

## b. Questions The Loan Officer Will Ask You

Lenders will determine whether you qualify for a mortgage from MHFA by asking four major questions and requiring documentation to support your responses.

1. Do you meet MHFA's general eligibility guidelines?
2. Can you afford the mortgage?
3. Are you a good credit risk?
4. Is the property of sufficient value to grant you the loan?

### 1. General Eligibility Guidelines

MHFA's general eligibility guidelines are listed on pages two and three of the accompanying brochure.

### 2. Your Credit Expense Ratios

To determine whether you can afford the mortgage, lenders will calculate your credit expense ratios. These are the ratios you calculated earlier in this brochure (page 2). Calculating these ratios can help you determine whether you meet MHFA guidelines *before* you go to the lender.

### 3. Your Credit History

The lender will also perform a complete check on your credit history to determine whether your credit record is satisfactory. To see if you've met your financial obligations in the past, lenders will request data from credit reporting agencies or directly from grantors of credit (retail stores, Mastercard, Visa, landlords, etc.) that keep records on consumer repayments. Major retailers, credit card companies and financial institutions supply the information which indicates missed or late payments, as well as any defaults on loans. The lender will want to know whether you've ever declared bankruptcy or have an outstanding court decision pending against you.

To save time and possible trouble, it's important for you to tell the lender immediately about any past credit problems. Since the law requires credit reporting agencies to provide you with the substance of your credit report, you can get a preview of what the lender will eventually see. For information on how you can obtain a copy of your credit record, contact the Consumer Credit Counseling Service at (617) 426-6644. Checking your credit records in advance of going to the lender will allow you to correct any mistakes you find, or prepare to explain any problems that appear in the records.

**4. The Value of the Property**

To judge whether the house is of sufficient value to support the loan, the bank will send an appraiser to assess the property's worth. For more information on this process see the section below called "Appraising Your Prospective Property".

## c. Documenting Your Loan

As part of the application process, the loan officer will also ask you to fill out a mortgage loan application which requires information on your salary, employment stability, assets and other details which may affect your request for a loan. Then the lender will contact the appropriate parties including your employer and your bank to verify the information for accuracy.

## d. The "Good Faith Estimate"

The law requires that within three business days of your application, the lender provide you with a "good faith estimate" of the costs you must pay to settle or close the loan. These closing costs may include mortgage application and attorney fees, title insurance, filing and recording fees, primary mortgage insurance (see page 6), fire and hazard insurance, standard bank settlement costs and a fee for the bank's originating, processing and committing to the loan. (This fee is called "points." A point is one percent of the amount of the mortgage loan.) Together all of these expenses will run between four and five percent of the mortgage loan.

## e. Appraising Your Prospective Property

In determining whether to grant you the mortgage loan, the bank will send an appraiser to determine the value of the property for purposes of the mortgage loan. In arriving at a value, the appraiser will look at comparable sales in the neighborhood and at the condition of the house.

Remember, the bank's appraisal is not a home inspection. The bank's appraiser is only estimating the value of the home for purposes of the mortgage loan. He or she may not check the systems and the structure of the house in the comprehensive manner that a home inspector should. So it's wise to have your own professional inspection of the house done in addition to the bank's independent appraisal.

## f. Mortgage Insurance Review

As noted on page 3, if you make a downpayment of less than 25 percent of the acquisition cost of the house, you must secure mortgage insurance.

Because of increasingly restrictive private mortgage insurance guidelines, MHFA has initiated two mortgage insurance options: a risk sharing program being offered with the General Electric Mortgage Insurance Company available to all qualified MHFA borrowers; and an Agency self insuring fund available to borrowers who secure loans through the Commonwealth's Homeownership Opportunity Program (for details see MHFA's Homeownership brochure).

In any case, as part of the mortgage insurance review process, your mortgage application will be carefully evaluated on the basis of whether you qualify for the loan and your credit history of meeting financial obligations.

## g. What If Your Application Is Rejected?

If your application is not approved you can ask your loan officer for an explanation. For example, there may be a mistake in your documentation which can be corrected, thus allowing the loan to go through.

If the problem is more complicated, get a clear understanding of what went wrong. Under the Equal Credit Opportunity Act (ECOA), the lender must send a notice stating the reasons for the rejection within 30 days of receipt of a complete application.

If you disagree with the decision, the MHFA will review your loan application provided that you request the review in writing and send it to the Agency.

In addition, some lenders participate in a voluntary program designed to review some complaints filed by borrowers whose loan applications have been denied. If there is a consensus by the lender's Review Board that denial of the loan application may have been based on where the prospective property is located, your complaint will be reviewed.

## GETTING A COMMITMENT FROM THE LENDER

If your application is approved, the lender will send you a commitment letter.

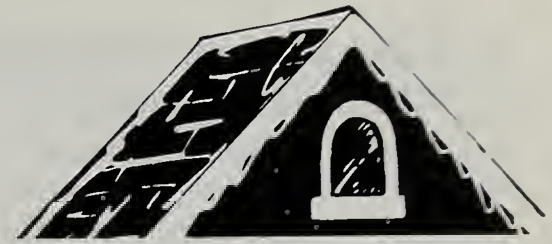
In your commitment letter, the lender will agree to loan you a specified amount of mortgage funds so that you can buy the house. The letter should note the following:

- the size of the approved loan;
- the term of the loan;
- the cost of the "points": a point is one percent of the amount of the mortgage loan. Lenders can charge no more than two points on MHFA loans. For example, if you're charged two points for a $100,000 MHFA mortgage, you will pay $2,000. Points are generally charged for the lender's originating, processing and committing to the loan;
- the Annual Percentage Rate (APR): the bank origination fee when combined with the base interest rate, and primary insurance costs, if applicable, will result in what is known as the Annual Percentage Rate;
- a breakdown of the principal and interest, fire and hazard insurance, tax and, if applicable, primary mortgage insurance payments you will be charged in conjunction with the mortgage.

The lender usually gives you five to seven days to accept the terms of the loan. If you agree with the terms, you sign a copy of the commitment letter and return it to the lender along with the fee for points. The lender's commitment is usually binding for 30 days, during which time you are expected to settle or close the transaction.

However, the commitment letter will generally also include a clause giving the lender the right to terminate the agreement and return the points you paid should there be major changes in either your financial situation or the condition of the property within the 30 day period allotted to close the loan.

If there are no last minute complications you can move on to the closing.



## CLOSING YOUR LOAN

Your loan has been approved. You've accepted the lender's commitment. Now you're ready for the closing – the big day when you meet with the principal parties in the transaction to settle the loan. At the closing you'll probably sit down with the seller, your respective attorneys, the real estate brokers and the bank's attorney to sign the legal papers officially transferring ownership of the house from the seller to you the buyer.

You'll also be expected to pay the balance of the downpayment and closing costs which are explained on page 3. For your convenience, we've included a checklist on page 12 of what you should bring to a closing.

*(Make sure that your Purchase and Sale or Accepted Offer to Purchase gives you the right to examine the property within 24 hours prior to the closing. This will give you a chance to ensure that the property has remained in acceptable condition.)*

The closing marks the end of the homebuying process. But what happens afterward? Let's look at the procedure for repaying the MHFA mortgage loan and your responsibilities as a new homeowner.

## HANDLING YOUR MONTHLY MORTGAGE PAYMENT

The mortgage document details your responsibilities as a homeowner. Key among these obligations is making a monthly mortgage payment to the lender servicing your MHFA loan. The lender will send you a monthly mortgage statement prior to the date your mortgage payment is due. To keep your good credit record, you must pay on or before the due date. If payments are received beyond a certain time after the due date, you may have to pay a late penalty.

If financial difficulties prevent you from meeting your payments on time, tell the lender immediately. If you don't explain your problems and let late payments pile up, the lender can sell the property in order to recover the money that was loaned. This is called foreclosure – a costly and time consuming process that the lender and MHFA want to avoid. Remember, if you're in a financial bind, work with the lender to prevent the loss of your home.

## a. A Breakdown Of Your Monthly Mortgage Payment

Your monthly mortgage statement notes all of the costs included in your monthly loan payment to the lender that services your loan. The look of mortgage statements varies from lender to lender but they should include the following:

- Loan Amount
- Principal Due
- Interest Due
- Insurance Due
- Taxes Due
- Date Due
- Total Payment Due
- Late Penalty (if applicable)

## b. Principal And Interest Balance

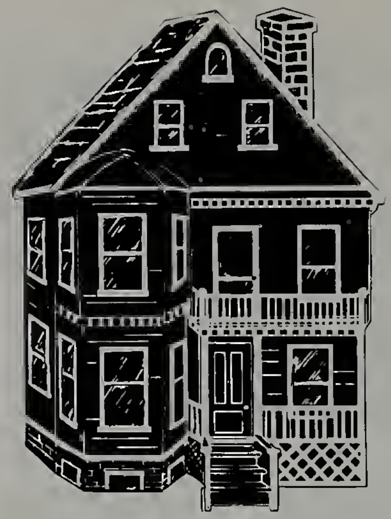
Each payment you make will reflect slightly more principal and slightly less interest than the payment before. However, the total dollar amount of your interest and principal payment will remain the same, unless your mortgage came through a program of MHFA's that provides for changes in your monthly payment (for example, the Homeownership Opportunity Program).

## c. Your Escrow Account Balance

MHFA requires that your monthly mortgage payment also include a deposit into your escrow account. This is a reserve of funds many lenders escrow (set aside) to pay for your real estate and insurance premiums when they are due. When you receive your tax, fire and hazard insurance bills, send them immediately to the lender servicing your loan so that the lender can pay the bills when payment is due.

## d. Prepayment

Prepayment means that you pay off the balance of your loan before the term is over. There is no prepayment penalty on a mortgage loan through MHFA.



## SUMMARY

We hope this brochure has given you a clear understanding of how to buy a home with MHFA financing. Remember, although most homebuyers go through the same basic steps outlined on these pages, every loan transaction has its own unique characteristics. For complete information it's best for you to contact a participating lender who can answer your specific questions about buying a home with a mortgage from MHFA.

# APPENDICES

## Glossary

**Annual percentage rate. APR.** The bank origination fee when combined with the base interest rate, and primary insurance costs, if applicable, will result in what is known as the Annual Percentage Rate.

**Application.** A form which the lender uses to collect information about a prospective borrower and the property being used as collateral.

**Appraisal.** An evaluation of the property to determine its value for purposes of the mortgage loan. An appraisal is concerned chiefly with market value — what the house would sell for in the marketplace.

**Basis Point.** 1/100th of one percent.

**Binder.** A payment or document making an agreement legally binding until the completion of a formal contract.

**Building Code.** Local or state building regulations which govern the design, construction and materials used in the construction of a building.

**Certificate of Title.** Like a car title, this is the paper that signifies ownership of a house.

**Closing Costs.** Sometimes called settlement costs. Costs in addition to price of house, including mortgage service charges, title search and insurance, and transfer of ownership charges. Be sure your sales contract clearly states who will pay each of these costs — buyer or seller.

**Closing Day.** The date on which the title for property passes from the seller to the buyer and/or the date on which the borrower signs the mortgage.

**Condominium.** Individual ownership of a dwelling unit and an undivided interest in the common areas and facilities which serve the multi-unit project.

**Cooperative Housing.** An apartment building or a group of dwellings owned by residents and operated for their benefit by their elected board of directors. The resident occupies but does not own his unit. Rather, he owns a share of stock in the total enterprise.

**Deed.** A legal document that transfers ownership of property from one person to another.

**Depreciation.** A decline in the value of a house as the result of time, changes in the housing market, wear and tear, adverse changes in the neighborhood and its patterns or for any other reason.

**Earnest Money.** The deposit money given to the seller by the potential buyer to show that he is serious about buying the house. If the deal goes through, the earnest money is usually applied against the downpayment. If the deal does not go through it may be forfeited.

**Easement Rights.** A right of way granted to a person or company authorizing access to or over the owner's land. Electric companies often have easement rights across your property.

**Equity.** The difference between the market value of the house and the amount of money you still owe on it.

**Escrow Funds.** Money, or papers representing transactions, which are given to a third party to hold until all conditions in a contract are fulfilled.

**Hazard Insurance.** Insurance to protect against damages caused to property by fire, windstorm and other common hazards.

**Home Mortgage Loan.** A loan for buying a house.

**Mortgage Commitment.** The written notice from the bank or other lender saying that it will advance you the mortgage funds in a specified amount to enable you to buy the house.

**Mortgage Discount "Points".** Discounts (points) are a one-time charge assessed by a lending institution to increase the yield from the mortgage loan to a competitive position with the yield from other types of investments. One point is equal to one percent of the amount of the mortgage loan.

**Mortgagor.** The homeowner who is obligated to repay a mortgage loan on a property he has purchased.

**Mortgagee.** The bank or lender who loans the money to the mortgagor.

**Origination Fee.** A fee or charge for the work involved in the preparation and processing of a proposed mortgage loan. This is usually paid at closing.

**Prepaid Expenses.** The initial deposit at time of closing, for taxes and hazard insurance and the subsequent monthly deposits made to the lender for that purpose. Expenses may also include an interest amount.

**Repair and Maintenance.** The costs incurred in replacing damaged items or maintaining household systems to prevent damage.

**Special Assessment.** A tax for a specific purpose such as providing paved streets or new sewers. People whose properties abut the improved streets or tie into the new sewer system must pay the tax. Condominium owners may also be assessed for major repairs done in common areas of their building.

**Title.** The evidence of a person's legal right to possession of property, normally in the form of a deed.

**Title Company.** A company that specializes in insuring title to property.

**Title Insurance.** Special insurance which usually protects lenders against loss of their interest in property due to unforeseen occurrences that might be traced to legal flaws in previous ownerships. An owner can protect his interest by purchasing separate coverage.

**Title Search or Examination.** A check of the title records, generally at the local courthouse, to make sure you are buying the house from the legal owner and that there are no liens, overdue special assessments, or other claims or outstanding restrictions filed in the record.

# House Comparison Checklist

| General Information | House 1 | House 2 | House 3 | House 4 | House 5 | House 6 |
|---|---|---|---|---|---|---|
| address | | | | | | |
| | | | | | | |
| sales price | | | | | | |
| total rms./br's/baths | | | | | | |
| style/type | | | | | | |
| age/condition | | | | | | |
| lot size | | | | | | |
| taxes | | | | | | |
| estimated heating costs/ other utilities | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| **Local** | | | | | | |
| shopping/transportation | | | | | | |
| neighborhood/schools | | | | | | |
| **Exterior** | | | | | | |
| type sewerage | | | | | | |
| garage/driveway | | | | | | |
| grading/drainage | | | | | | |
| siding | | | | | | |
| roof/gutters | | | | | | |
| windows/doors | | | | | | |
| landscaping | | | | | | |

# House Comparison Checklist

| Interior | House 1 | House 2 | House 3 | House 4 | House 5 | House 6 |
|---|---|---|---|---|---|---|
| rooms-down/up | | | | | | |
| fireplace(s) | | | | | | |
| kitchen/appliances | | | | | | |
| closet/storage space | | | | | | |
| basement/attic | | | | | | |
| fuel/heat type | | | | | | |
| **Insulation** | | | | | | |
| attic/ventilation | | | | | | |
| storm windows/doors | | | | | | |
| walls | | | | | | |
| ***Lead Content** | | | | | | |
| ****Fees** | | | | | | |
| Fire & Hazard Insurance | | | | | | |
| Real Estate Taxes | | | | | | |
| Condominium Fees | | | | | | |
| Mortgage Insurance | | | | | | |

REMARKS:

***Lead Law: Under the state's amended Lead Law, sellers or real estate brokers are legally required to distribute to prospective homebuyers a notification package to inform them about lead poisoning. Prepared by the Childhood Lead Poisoning Prevention Program, the package includes the Lead Law's rules and regulations. Ask your broker for further details.**

****Ask your broker or lender to help you determine these fees.**

## Homebuyer's Checklist

### What to bring when applying for a mortgage:

- Purchase and sale agreement executed by all parties.
- Account numbers of each bank account where deposits are held, plus the name, address, and zip code of each depository.
- All loans and credit account numbers, plus the name, address, and zip code of each creditor or lender.
- Name and telephone number of a person whom the appraiser should contact to gain access to the property being purchased.
- Name and telephone number of the real estate broker (if any) involved in the transaction.
- Your own attorney's name and telephone number.
- A copy of your cancelled earnest money check, if available.
- A complete schedule of your real estate holdings. Include the address of each property, the type of property and number of rental units if rented, the income from each property, the mortgage payments, the taxes and insurance and any income (or loss) from operating the property.
- Bring prior three years' federal income tax returns, signed.
- Social security numbers for each borrower.
- Name and address of your present employer(s) for each borrower: if employed less than two years, the name(s) and address(es) of previous employers during the previous two-year period.
- If you were a full-time student at any time during the past two years, be prepared to verify this.
- Photocopies of your stocks and bonds, if you use their value to qualify for the mortgage loan; if they are in the hands of your broker, provide the name and address of your broker, plus your account number(s).
- Condominium buyers should try to obtain a copy of the condominium documents; if the project is approved by the Federal National Mortgage Association (Fannie Mae/FNMA), ask for the FNMA 1028 form.
- An estimate of the annual property taxes and a reliable quote for insurance; condominium buyers should provide an estimate for the homeowners association fee. If this fee includes heat, include that information.

### What to bring to a closing:

- A certified check in the amount necessary to complete the closing. The correct sum should be provided to you prior to the closing by the attorney closing the loan for the lender.
- A homeowner insurance policy. Most lenders cannot accept an insurance "binder" and must have the actual policy in hand at the closing.
- Finally, read your mortgage loan commitment carefully, and make sure you have provided the lender with all the documentation needed to comply with the conditions of the commitment letter. If you have doubts, see an attorney. Even if you don't have doubts, we suggest you see an attorney. If all conditions are not fulfilled, your commitment may be invalid.

**NOTES**

# NOTES

**Credits:**
Bay Colony Home Inspection Consultants, Inc.
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